BuildingEngines

Guide

5-minute Guide to Increasing Revenue in Commercial Real Estate

"Commercial real estate (CRE) owners and operators have a big challenge to overcome. On one hand, it's critical to operate as efficiently as possible to keep costs under control and net operating income (NOI) high. On the other, tenants have growing expectations and increasingly want not just a space, but an experience...The argument is that it is possible to meet bottom-line demands and top tenant requirements with the right systems."

— Tim Curran, CEO, Building Engines (Forbes)

Introduction

Income is the "I" in net operating income (NOI). And for commercial real estate entities the largest component of income by far is rent. But there are obviously limits to using rent increases as way to generate more income. Like the hospitality industry, of which CRE is fast becoming a subset, CRE has premium, mid-level, and budget markets. If you're charging market-rate rents, increases are not really an option.

You can also boost occupancy to generate more rental income. It's worth noting there are two kinds of occupancy, physical and economic. If all your office space is rented, you have 100-percent physical occupancy. Economic occupancy measures the rate of rent collected compared to the gross potential rental income of the property.

If all rented units are rented at market rates, physical and economic occupancy will be the same. But if some units rent at a discount, economic occupancy will be lower. Certainly, you want to have the two as close together was possible, preferably in the 90-percent range. Fear of raising rents and losing tenants is logical but aiming for 100-percent physical occupancy over high economic occupancy will not improve NOI.

Since rent and occupancy increases provide limited room for revenue growth, property owners and managers must look elsewhere. This guide will examine seven ways that can make a property more lucrative without risking the ire — and possible loss — of tenants by raising the rent.

Measure your buildings to maximize RSF

	BOMA	REBNY
Occupiable Space	✓	✓
Restrooms		✓
Shafts & Vertical Penetrations		
Mechanical & Electrical		✓
Columns	✓	✓
Elevator Lobbies	✓	✓
Janitor Closets		✓
Telephone Closets		✓

Create More Rentable Space

Although raising rents is often problematic, you can increase rental income by creating more rentable square footage (RSF). So, if you're using outdated building measurement methods, you're missing out on potentially hundreds of square feet on which you could earn rental income.

How can you uncover the most RSF from your buildings? Here's a tip: Don't use architects to revise floor plans to the latest building measurement standards. It's not how they make their money, but they'll charge you and arm and leg to do it — and take forever. And don't invest in expensive CAD software either.

Use space management software. Space management software makes it easy to stay on top of the most recent building measurement standards, such as BOMA 2017 or REBNY. The right solution has experts to help you navigate any standards changes, you don't have to waste time keeping up with them and you can use the most recent standards to increase RSF. Plus, these experts can help measure your buildings correctly.

By creating accurate, three-dimensional floor plans, space management software can also help you lease more efficiently to maximize building occupancy. Your lease team will know what spaces are vacant and can market them effectively.

Take charge of your floorplans with space management software, and uncover additional RSF, visualize floorplans, and more.

Overtime means a request for service within your building after normal operating hours — evenings and weekends, which makes it a potential profit center. But if you can't effectively track and bill these requests, they become a significant source of revenue leakage.

Charge Back for Work Order Service Requests

Chargebacks can be looked as revenue generators or expense avoidance, since generally chargebacks result when you do work for tenants that under the terms of the lease is their responsibility. This can include everything from changing a light bulb to hanging a TV monitor.

Nevertheless, accurate request capture, assignment, and reporting on time, materials, labor costs, mark-ups, and taxes is critical to assessing profit. Likewise, you want to track how much service is "comped" (given away) versus fully charged. Well-designed property management software should allow you to do this easily and share billable data with your accounting system for simplified invoicing.

An area related to work order chargebacks is overtime HVAC requests. If tenants request overtime HVAC, you can usually charge them for that, depending on the terms of the lease.

Offer Amenities or à La Carte Services

CRE professionals see amenities as a crucial part of the workplace experience they provide tenants and a reliable means of increasing building revenue. In fact, research conducted by Building Engines suggests many building owners are in an "amenities arms race."

Investing in amenities is an expense, so what amenities are the most in demand and likely to produce the most incremental revenue? That's an excellent question, especially since property managers and tenants often have different ideas about the most desirable amenities. For example, see how building occupants and CRE professionals rank six common amenities in the chart below[1].

Rank (Contribute Most to Positive Work-place Experience)	Building Occupants	CRE Professionals
1	Public Wi-fi	Café or restaurant
2	Gym	Meeting & event space
3	Café or restaurant	Coffee Shop
4	Coffee Shop	Public Wi-fi
5	Meeting & event space	Gym
6	Lobby lounge or seating area	Lobby lounge or seating area

Although certain amenities like gyms are almost sure winners, it's wise to survey your tenants when considering whether to add a service. Are tenants interested? Will they pay for it? And how much is reasonable?

Other common amenity options include:

- Offering faster internet service
- Renting premium parking spaces or bike storage
- Adding vending machines
- Charging for concierge services like pet walking and daycare
- Providing in-house janitorial and cleaning services

[1] The Tenant Experience Gap Report

Create A Coworking Space

More and more companies with telecommuting employees or employees who constantly travel are turning to coworking spaces — the Airbnb of the office world. They offer standard office resources, workable temporary desk areas, and social interaction with other business personnel. Companies that use coworking get out from under issues like security, postal services, depreciation of devices, and property upkeep.

Restaurants and hotels offer coworking space to generate extra income from square footage that isn't used during certain times of the day or week. There's no reason commercial office building owners can't do the same. Converting a large vacant suite into coworking space is a great way to generate more revenue per square foot. Coworking spaces also give building owners a built-in prospect base. When a start-up business outgrows its coworking space, they'll be ready to transition to a longer-term commitment in the building.

Measuring the value of coworking spaces

- Coworking spaces have risen from virtually zero to 11,000 spaces worldwide in the last ten years.
- Approximately 62 percent of coworkers say that their standard of work is higher in shared spaces, 64 percent that they more frequently complete their tasks on time.
- Rental costs vary according to the market, but most pay $400 to $800 per person every month.

Source: https://aquicore.com/blog/cre-professionals-need-know-coworking/

Real World Examples

- The New York Academy of Sciences offers its 40th-floor event space in four different rooms at the 7 World Trade Center.
- On the west coast, owners of an art deco creative office building in downtown Los Angeles offer 3,000 square feet of event space, 1,600 square feet of lounge space, and customized à la carte services by the hour including staffing, security, and catered breakfast, lunch, and dinner service.

Expand the Rental of Event and Meeting Rooms

Many buildings have available space in their property that tenants can reserve for meetings and events, usually for a nominal fee. But event and meeting spaces don't have to be reserved exclusively for tenants. Building owners can use them to create meeting areas, event and party rooms, galleries, and popup spaces for special events catering to businesses and entrepreneurs. And the fees can be quite a bit larger than for tenants.

Of course, whether it's a tenant or an outside group coordinating the promotion of the event, scheduling, and fee collection can become complicated, especially if you're lucky enough to have a highly desirable space. The answer? Scheduling software. It can streamline and automate booking, managing, and tracking the use of event space, capturing every available revenue opportunity.

Provide IT Infrastructure Services

Today when a tenant moves in or expands, there's a lot of technology and digital service work that needs to be done. For many companies, their businesses cannot function until their IT infrastructure is up and running. That includes power, heating and cooling, cabling, network routers and switches, data storage, Internet connectivity, and WiFi — the list goes on. Even though most companies are now moving substantial workloads to the cloud, on-premises infrastructure is still critical.

There are companies whose bread and butter is setting up IT infrastructure for companies as they move into a building. And partnering with these companies is a new revenue opportunity for CRE property owners. The companies' business model usually involves infrastructure-as-a-service (IaaS) via subscription. CRE landlords can participate in this ongoing revenue stream, while delivering better quality of service to tenants and helping them become operational faster.

Get Started Today

Could your portfolio benefit from increased revenue?

[Schedule a demo of Prism today.]

Prism. The Future of CRE Operations Today.

For over 15 years, Building Engines has helped commercial property owners and managers increase NOI, while delivering outstanding tenant service. We've built Prism, our enterprise-strength, interoperable operations platform, to offer the most advanced CRE technology stack in the industry. Its open, micro-services architecture has been designed to offer rapid time to value with unmatched power and flexibility.

About Building Engines

Building Engines is trusted by hundreds of commercial real estate organizations who manage billions of square feet. Prism will not only help you get the job done today. But it will prepare you for what's to come.

Exceptional Building Operations. Extraordinary Business Outcomes.

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